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Corporations perform own analyses

By Barry B. Burr

Before choosing among several investment banks' competing anaiyses on calling a $400 million bond issue, Philadelphia Electric Co.'s corporate finance department turned to its personal computer to do its own number crunching.

"We weren't satisfied with their analyses until we could duplicate them on our personal computer," said Richard Wright, the utility's supervisor-financial division.

In the end, he said, Philadelphia Electric picked Goldman, Sachs & Co., largely because its analysis was the only one of the investment banks' with which the utility's corporate finance department could agree.

Before the finance department got its single IBM PC and Lotus 1-2-3 spreadsheet program, Mr. Wright said, "We would have relied more extensively on the presentation of the investment bankers. Or, we would have tried to do some calculations on mainframes." But using mainframes would have been slower, more cumbersome and the analysis less extensive, he added.

Such scenes are becoming commonplace as corporate finance departments purchase personal computers and analytical soft-

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COMPUTERS

for corporate financial management

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Pensions & Investment Age

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IRS enforcing plan amendment rules

Millions ride on missed deadline

By Joel Chernoff

WASHINGTON — Thousands of employers face losing millions of dollars of tax deductions for their pension contributions if they missed deadlines for filing plan amendments to comply with recent pension legislation.

Under an Internal Revenue Service announcement that has stunned the pension community, employers that did not submit to the IRS their plan amendments under the 1982 and 1984 tax laws and the Retirement Equity Act may lose part or all of their deductions for the 1984 and 1985 plan years.

For example, if a company whose plan year coincides with the calendar year submits its amendments in March, it may lose 20% of the tax deduction.

Benefit consultants said most of their clients, who tend to be sponsors of larger plans, have met the compliance deadlines, which generally fell on Nov. 1, 1985. But companies with small plans are far more likely to be victims of what is viewed by some as an unusually harsh and unprecedented penalty.

Owners and key employees of late-filing companies that maintain defined contribution plans will incur imputed income for a portion of the contributions for any plan years involved. That means affected employees will have to pay taxes on that contribution, even though no income actually was received.

However, that penalty is expected to affect few employees because of another tax code provision granting deductibility to non-qualified plans.

The announcement is "really a bombshell given what we have done in the past," said Fred Rumack, director of tax and legal services for Buck Consultants Inc., New York. The penalty for late filing "is in effect changing the rules of the game," he added.

"Under the guise of partial relief, the IRS seems to have imposed an unprecedented penalty on plan sponsors," said Saundra Dunne, assistant vice president for Alexander & Alexander Services Inc., Newburyport, Mass.

"This really is an outrageous way of administering the tax law," said Dennis Coleman, partner at Kwasha Lipton, Fort Lee, N.J. "People are going to be writing their congressmen."

However, sentiment about the notice was not unanimous.

"It seems to me to be a fairly reasonable approach on the part of the IRS," said Duane Mayer, chief actuary for Facciani & Co., Cleveland. "I guess I'm somewhat pleasantly surprised that (the IRS) didn't go further than they did."

An IRS official emphasized the notice provides partial relief for employers who

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Photo by Arnie Adler

John H. Cannon, vice president and treasurer of F.W. Woolwor[illegible] purchased a range forward contract on deutsche [illegible] ecently, and is now a booster of the new foreign ex[illegible]ge tool. Story on page 27.

Dr Pepper sale may spark boom

Post-LBO activity surge seen

By Chuck Paustian

Coca-Cola Co.'s pending $470 million purchase of Dr Pepper Co. may be the first in a flurry of sales and public offerings of companies taken private through leveraged buy-outs.

Pension fund investors in Forstmann Little & Co.'s first subordinated debt and equity limited partnership — which purchased Dr Pepper in 1984 — stand to receive returns of more than 46% if the transaction meets regulatory approval.

Although the sale of a previously acquired company, or the offering of its stock in the public markets, is the natural conclusion to the leveraged buy-out process, many observers said the climate is right for a multitude of such activity.

"There is no doubt about it that the atmosphere out there, like any market timing (investment), now is the perfect time to gain your liquidity," said Kenneth A. Bodenstein, senior vice president and head of the financial consulting office of Duff & Phelps Inc., Los Angeles.

As portfolio companies are sold or go public, capital gains are divided among the limited partners.

In a leveraged buy-out, a target company is purchased with borrowed funds. The debt ultimately is paid down with funds generated by the acquired company.

The run-up in stock prices during the past few years has increased the value even of privately held companies, whose valuations are based in part on the value of compa-

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Plan assets could offset lost income

By Fred Williams

The sharp drop in oil prices since January is prompting Oklahoma officials to take another look at tapping the state's pension reserve fund to offset a projected record revenue shortfall of $467 million in the fiscal year beginning July 1.

A similar effort — proposed by Gov. George Nigh to meet a 1985 revenue crisis — was blunted by legislative leaders. (*Pensions & Investment Age*, Feb. 18, 1985).

So far, Oklahoma is the only oil state in which pension money is being considered as a way to supplement the state government's funding. But if oil prices continue to drop, public funds in other states — including Texas, Wyoming and Louisiana — may be affected because of revenue shortages and, possibly, fewer employees on which to base appropriations, some experts predict.

Oklahoma receives almost one-quarter of its revenue from a 7% severance tax on oil and gas production.

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TIAA-CREF officials fight to protect tax exemption

By Ed Christman

NEW YORK — Officials of TIAA-CREF are fighting to preserve the organization's tax-exempt status, which is threatened by the tax reform bill passed by the House of Representatives.

They are trying to persuade the Senate Finance Committee to retain the organization's tax-exempt status under its current structure in the Senate's tax reform bill.

At the heart of the matter is whether the Teachers Insurance and Annuity Association — College Retirement Equities Fund, which provides pensions to hundreds of thousands of college professors and teachers, is a commercial insurance company selling annuities to college and university pension plans or a nationwide multiemployer retirement system.

Last fall, the House Ways and Means Committee, treating TIAA-CREF as if it were an insurer, approved a tax reform plan containing provisions that would levy a tax on whatever was contributed to the reserve funds of TIAA, the approximately $23 billion fixed-income portion of the estimated $44 billion fund.

Also, it appeared to encourage TIAA-CREF to restructure so the annuities it provides to retirees are clearly related to its pension business, allowing the organization to avoid most of those taxes.

Approximately 98% of TIAA's assets back its pension business and 2% back its health and life insurance business.

Interviews with TIAA-CREF officials, interested observers and a staff member of the Ways and Means Committee turned up conflicting viewpoints on the implications of the tax plan.

TIAA-CREF officials claim the organization is a pension fund, and that the House plan unjustly taxes the retirement benefits of the college community because it doesn't attempt to levy a tax on corporate, public and union pension plans.

TIAA-CREF officials estimate that without restructuring, the tax proposal could reduce retirement benefits by as much as 12%.

But Roy Schotland, a professor of law at Georgetown University, Washington; Tom Woodruffe, executive director of the Commission of College Retirement, New York; and a staff member of the House committee, who did not want to be identified, all say TIAA-CREF officials are overreacting and generating a lot of unnecessary fear in the college community.

Mr. Schotland said "it's not clear that there would be any significant impact" upon retirees because TIAA-CREF's health and life insurance business is so small.

In addition to TIAA-CREF, the Blue Cross and Blue Shield Association, Chicago, and a few other organizations would lose their tax-exempt status under the plan.

Those organizations supposedly enjoy an unfair edge over their competition in the insurance field because of their tax-exempt status.

Early last month, the U.S. Senate Finance Committee held hearings on the proposal to eliminate the tax-exempt status of those organizations.

After the hearings, Sens. Bob Packwood, R-Ore., committee chairman; Daniel P. Moynihan, D-N.Y.; and John H. Chafee, R-R.I., reportedly said they were opposed to taxation of the TIAA-CREF pension system.

A spokeswoman for the Finance Committee said no date has been set for discussion of the bill.

Of the House bill, Francis Gunning, executive vice president and general counsel at TIAA-CREF, said organization officials never had a chance to talk with Ways and Means staff members and are not sure what they had in mind.

But it appears that starting with 1986, the bill would place a tax each year on whatever additions are made to the reserve funds backing up the assets used to meet the obligations of TIAA-CREF's life insurance and health insurance business, Mr. Gunning said.

Starting in 1988, unless TIAA-CREF restructures, the bill would tax whatever additions are made during the year to the reserve funds backing up the assets used to meet the obligations of its pension annuity business.

The House Ways and Means Committee reportedly estimated those moves would generate $80 million a year in revenue from TIAA-CREF, and $2 billion overall when Blue Cross and Blue Shield and others are included.

Mr. Gunning said there appear to be two reserve funds within TIAA that are taxable under the plan. One fund, the contingency reserve, has about $633 million and the other, the securities valuation reserve, about $163 million. Last year, TIAA contributed a total of $192.7 million to those funds that would be taxable.

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Manville slashes fixed-income use through hedging

By Trudy Ring

DENVER — Hedging has allowed Manville Corp. to overhaul its pension asset allocation, eliminating fixed income except in special cases, said James Beasley, vice president and treasurer.

"Essentially, we have become an equity-oriented program," Mr. Beasley said. This includes oil and gas, real estate and convertible bond investments, which he said are similar to equities because they involve an ownership interest.

Manville, which has more than $600 million in pension assets, changed its allocation at the beginning of the year. Previously, it had been between 50% and 55% in equities and 25% in fixed income, about 10% in cash and roughly 5% each in oil and gas, real estate and convertibles.

In the first quarter of 1984, Manville initiated a program of dynamic hedging, also called portfolio insurance, in which Leland O'Brien Rubinstein Associates Inc., Los Angeles, sells stock index futures contracts against the portfolio when the stock market is headed down. Manville also is using a smaller dynamic hedging program with J.P. Morgan Investment Management Inc., New York, which uses both stock index futures and put options on stock indexes.

These programs are designed to protect the entire pension fund from market losses. Because the portfolio is hedged in this manner, there seemed to be no reason for Manville to protect against stock market risk by having a portion of assets in less risky, but generally lower-return investments such as fixed income and cash, Mr. Beasley said.

Now, the fund maintains just enough cash to make benefit payments and put up margin requirements for the derivative instruments, he said. Also, it has gone long in stock index futures against its cash holdings, which are treated as if they were fully invested and participating in the stock market.

James Beasley

To implement its new asset allocation, the Manville fund gave about $200 million to eight new equity managers. The money came from existing managers, but no managers were dismissed, Mr. Beasley said. He declined to identify the new firms.

He did say the new managers have a variety of investment styles, such as large-capitalization stocks, small-cap stocks and international, but were screened to prevent the multiple-manager lineup from becoming a "giant index fund." Manville for the first time also allocated a small amount to an index fund, run by one of the new managers, he said.

The assets taken away from existing managers were in fixed income and some equity strategies. The equity management changes were designed to further diversify the fund's stock investments.

Also, allocations now are more evenly distributed among the managers, he said, but not all the new managers received exactly the same allocation.

Mr. Beasley said "one or two" of the managers have authority to use fixed income, but only if they believe they can make more money there than in equities.

Each of Manville's managers agreed to a benchmark based on its universe of stock selection, Mr. Beasley said. The benchmarks were established by the fund's master trustee, Harris Trust and

Continued on page 39

Overseas investments draw allocations from 5

By Rose Darby

The Warner-Lambert Co. pension fund and The Common Fund have hired international managers in the past two months, and three other tax-exempt funds are believed to have done so.

The three reported to have added international or global managers are the pension fund of International Paper Co., New York; The Broyhill Foundation Inc., Lenoir, N.C.; and a multimanager commingled fund offered by The Frank Russell Trust Co., Tacoma, Wash.

The $82 million retirement fund of Warner-Lambert, Morris Plains, N.J., made a second commitment to international investment, hiring Putnam International Advisors, Boston, to run a $25 million to $30 million international equity portfolio.

The assets assigned to Putnam came from a reallocation of funds handled by other managers, although "no managers were terminated," said Marc Shapiro, manager-pension investments.

Putnam joins Rowe Price-Fleming International Inc., Baltimore, which runs about $42 million in international equities for the fund.

The Common Fund, the Fairfield, Conn.-based multimanager fund, recently hired ABD International Management Corp., New York, and BAIMCO International Ltd., London, to manage equities for its international commingled fund, said George Keane, president.

That fund totals $300 million, which includes investments for about 50 colleges and universities, he added.

The $1.28 billion International Paper pension fund reportedly hired State Street Bank & Trust Co., Boston, and a British fund manager, to run international equities.

Charles Henry, director-trust investments, would not comment.

State Street reportedly was hired to oversee an international equity index fund. State Street officials refused to confirm or deny the report.

The roughly $13 million Broyhill Foundation, a trust of Broyhill family assets, is said to have hired at least one international investment adviser.

Foundation officials said they could not comment over the telephone.

The Frank Russell Trust Co. reportedly hired Walter Scott International, Edinburgh, Scotland, to manage overseas equities for one of its international commingled funds. Frank Russell officials were unavailable for comment. ■

It's 'last call' for directory data

The completed questionnaires for *Pensions & Investment Age*'s Investment Adviser Profiles Issue of May 19 should have been returned by now.

Even though the deadline has passed and more than 400 managers have responded, *P&I Age* is issuing a last call for any trust bank, insurance company or investment management firm that manages tax-exempt assets and wants to be included in this important issue.

Late questionnaires will be accepted until March 17. Any firm needing a questionaire should call Carol Wiley, *P&I Age*'s directory coordinator, at (312) 649-5486.

The completed questionnaire must be received by March 17 for inclusion.

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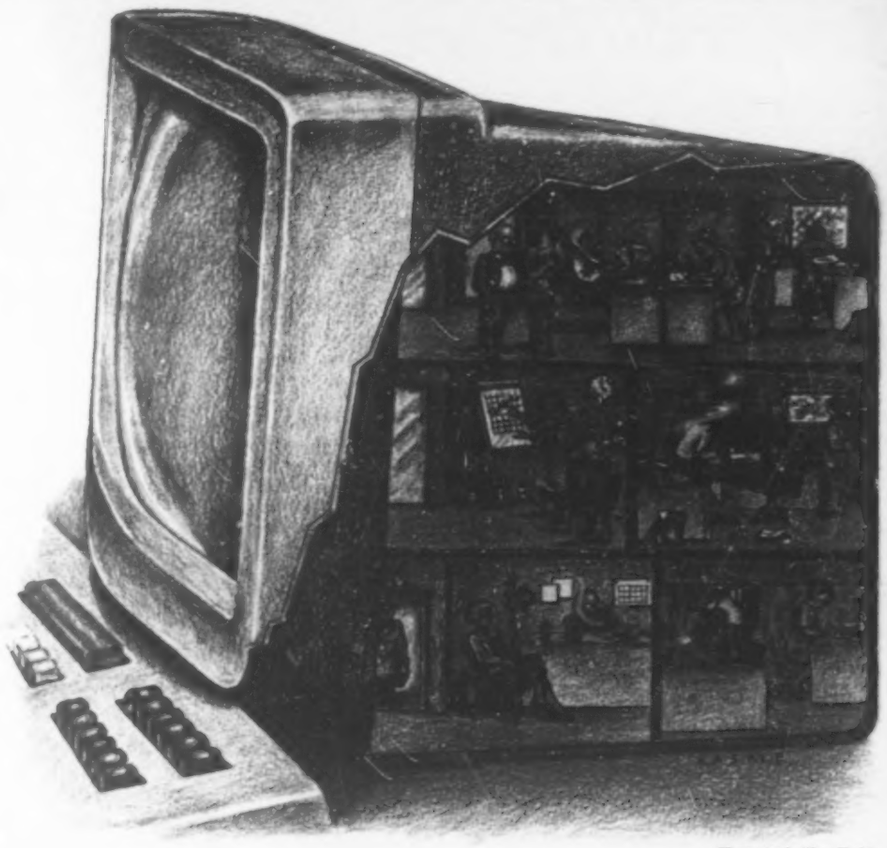

Illustration by Mary Kaskie

Pension programs cover the spectrum

Executives do everything from write their own to buy whole information systems

By Ed Christman

With the possible exception of Lotus 1-2-3, no one computer program meets the needs of pension funds using personal computers for internal analysis or tracking money managers.

Some large pension funds use mainframe computers for detailed analyses of their investments and their managers, apparently because of the limitations of the software available for personal computers.

A telephone survey of pension funds showed their use of computer technology ranges from creating their own programs and data bases to subscribing to services that supply a full complement of data bases and analysis software.

Xerox Corp., Stamford, Conn., with about $1.7 billion in employee benefit assets, all managed by outside investment advisers, uses programs written by Gerald Paolini, manager-trust performance analysis, on its in-house time-sharing mainframe system.

Those programs allow the fund to calculate and store the performance for each adviser on a monthly basis; do some what-if analyses; and compile a data base of potential managers.

Using data supplied by the fund's master trustee, State Street Bank & Trust Co., Boston, "we can do our performance reporting for each manager," Mr. Paolini said.

"It pays to do it yourself," he said. "Sometimes, it helps you to understand better what the numbers mean when you are compiling them yourself."

In addition to calculating performance, the fund maintains a performance data base for all of its managers. Using that data base, fund officers can compare performance among types of managers (e.g. equity, fixed income) and against appropriate indexes. Managers also can be compared by style or by assets under management.

Moreover, the staff can see what impact a certain move might have on the fund. "For example, we can see if we exclude some manager how it would affect the fund's return," Mr. Paolini said.

Xerox is also tracking potential investment managers by compiling its own data base, he reported. "We now have about 100 managers, with some degree of data on each."

On the other end of the spectrum, the Columbus-based Ohio School Employees' Retirement System recently entered into an agreement with Interactive Data Corp., Boston, for a broad range of computer services to assist in the management of the fund's nearly $2 billion in assets, which mostly are run internally, said R. Jack Cooper, chief investment officer.

The Interactive Data products are XPORT, a portfolio management, investment accounting and performance measurement system; Cashport, a system for managing short-term cash funds; BASIS, a fixed-income analysis system; and three data access and analysis tools, PC Screen, DataSheet and PC AnalystX.

In addition, the agreement allows the fund access to the Compustat data base, compiled by Standard & Poor's Corp., New York, which covers more than 6,000 companies, providing nearly 160 variables for each, he said.

"Previously, we used a data base which only covered 1,600 companies and was updated monthly," Mr. Cooper said. "Now, my data is 29 days newer, covering five times as many companies, and three times as many bits of information for each. Also, I have faster screening capabilities."

He said the fund also could use the data base to screen for several variables.

For example, "we may screen using 12 variables that we think are important in the current environment. With those variables, we can generate a list of 15 stocks and rank them. We can use other variables to screen for five buy names."

The IBM PC-XT is used by the fund's eight portfolio managers.

The agreement with Interactive Data will aid the fund executives in overseeing stocks, which comprise 29% of the fund's portfolio; bonds, 23%; mortgage-backed securities, 18%; and cash 14%.

But Mr. Cooper's next project is to find something that will help him oversee real estate holdings, which make up 15% of the portfolio. (The fund also has 1% in venture capital.)

Finding a program to fit all of the fund's real estate needs is going to be tough, he said. "The programs that are available are very

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Trial and error gets workstations running

By Richard J. Gillespie

NEW YORK — Although one recent survey found most corporate treasury officers who have workstations are very satisfied with the result, a spot check by *Pensions & Investment Age* found the initial steps were difficult, frustrating and hard work.

"It's not something you can plug in and expect to be up and running tomorrow. We are setting the precedent for the future, but treasurers have got to realize that they can't just walk in, press a button and get what they want," warned Margaret Graff, director of investor relations for the American Bankers Insurance Group, Miami.

Ms. Graff and several other corporate executives interviewed stressed the need to make sure the vendor will support the system and to make sure the company can deliver all it promises. They also issued warnings on being part of a pilot program.

"I don't recommend pilot projects to just anyone who needs a system," said Ms. Graff. "They have to have the time" to work on a pilot.

The treasurer of a large Texas corporation added, "If a bank wants you to be a test site, you had better find out if the bank is a test site."

Last year, American Bankers Insurance Group brought Interplex software into the company's cash management operation. But before then, Ms. Graff agreed for her office to serve as a pilot installation on a rival bank-offered, low-cost workstation.

As Ms. Graff recalls, the experience was all hard work and frustration. The bank supplying the software was always changing it, she said, and the modules failed to match up with the promises given by sales representatives.

There also was a serious flaw in the software that didn't become apparent until several months into the test, she said.

When the system was asked to print out a "Rolodex" of bank account information it had taken the staff hours to enter, the printer went down half the list and then stopped.

"It was an overrun," she said. "Half the banks just wouldn't print. The data was still there on the screen, but when I went to produce a report it would only print down to a certain spot."

The problem was not with the system's hardware, an IBM PC-AT with a 20-megabyte hard disc. The data base was just not large enough to handle the magnitude of data that the company needed, she said.

"So what was the point of having a system that was just going to do half of what was needed," Ms. Graff said.

"One thing I stress to people who call me for references on workstations is that if a workstation vendor's salesperson is not knowledgeable and doesn't understand a system, then there is going to be a problem."

As a result, the company switched to Interplex — a more expensive product, but one that meets its needs.

While the first package retailed for about $8,000, Ms. Graff said, Interplex's software cost more than three times as much — $27,000 to date with the total cost expected to be almost $30,000.

Yet the Interplex software is more sophisticated than the original bank-offered package in many respects, she said.

Interplex not only runs the account information lists in full and prints additional reports, but also offers a one-point system, which means an operator need only enter data into the system once, and the system will automatically feed it to all the other modules, she said.

The moral of the story, she said, is that if you are a big company with sophisticated needs, don't buy cheap software.

Cash management industry observers, however, said the experience was a case of mistaken iden-

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Trial and error . . .

Continued from page 11

tity. Much of the cheaper workstation technology was not designed to be used by large financial or other companies with complex bank arrangements, they said.

According to the recent survey by Treasury Strategies Inc., most treasury officials who do not now own workstations would want automatic dial-up capabilities and daily cash work sheet modules in their workstations. More than 75% wanted wire transfer capabilities and an additional 63% requested debt management modules. Fifty percent wanted investment management modules.

However, only 15% intended to spend more than $10,000.

But Ms. Graff does not regret getting involved in treasury workstation technology.

Not only did the new system enable American Bankers Insurance Group's treasury to operate more efficiently with staff of three, down from four people, but it also improved the treasury's operation's error rate, she said.

Best of all, it put some pizazz into the treasury work, providing her staff with motivation and involvement, she said.

Another treasury department that experienced problems its first time out was that of the Teachers Insurance and Annuity Association — College Retirement Equities Fund, New York.

Dave Grunbaum, associate treasurer, said after an initial disappointment with one bank vendor, the department has now installed a system that meets its criteria.

Before selecting the first vendor, the treasury group had discussed its approach in some detail, and had concluded the best approach would be to go with the company most able to survive and continue offering updates, enhancements and support, he said.

But only a few months after TIAA-CREF installed Citibank microcomputer software, CitiIntegrator, representatives of Citibank told him although it planned to continue supporting its software, no enhancements or additional developments could be provided.

"We wanted the system to grow with our needs, but the bank was not going to give us the guarantee that it would expand with our needs," said Mr. Grunbaum.

His case is noteworthy, according to Richard Poje, a principal with the cash management consulting firm, Treasury Strategies, Chicago, in that Citibank's workstation users indicated a very high degree of overall satisfaction with the CitiIntegrator workstation.

How satisfied are treasury workstation users?

Firm	Satisfaction scale: 1-5	% of users*
ADS Associates' Resource	4.29	4%
Wells Fargo's MicroExpress	4.15	8
MH Financial's Interplex	4.13	14
Citibank's CitiIntegrator	4.05	7
Chase Manhattan's InfoCash	3.76	13
Bank of America's MicroStar	3.72	19

* Estimate based on survey data of 501 non-financial, publicly held corporations.
Source: Treasury Strategies Inc., Chicago

"Most people have purchased plain-vanilla systems," said Mr. Poje.

"Mr. Grunbaum is more sophisticated . . . Most people got what they paid for and are happy (with CitiIntegrator)."

But for Mr. Grunbaum, it was exactly the kind of problem he had hoped to avoid. The treasury group is now up and running with the Chase Bank's treasury workstation system, Infocash. Assistant Treasurer Gary Chinery said he is satisfied with the result.

Another bad initial experience was had by the treasurer of the large corporation in Texas, who did not wish to be identified.

One of the company's banks had offered him the opportunity to use the then-new treasury workstation developed by ADP Network Resources on a pilot basis.

It soon became apparent that not only was the company a test site, but so was the bank.

"The (bank) thought ADP was going to support it and ADP thought the bank was going to support it so in the end we sent it back. We couldn't use it," he said.

In the end the Texas company's management information systems department put together a five-member staff that developed software in-house to meet the company's specific needs.

"In a couple of weeks they came back with the programs that we needed," the cash manager said. "We found that we did not need two sophisticated programs. To follow investments is not a terribly difficult module to develop. It does not have bells and whistles and is not in color, but anybody can buy dbase III and come up with something adequate."

Janet Mills, cash manager with Johnson & Johnson in New Brunswick, N.J., was one of the first to introduce a workstation into a treasury department when she bought Future Technologies MicroCash more than three years ago.

Ms. Mills, who says she is "more than satisfied" with the result, also believes her satisfaction relates directly to the system's being substantially customized from the outset.

"I think that certain basic things can be built into a treasury workstation that are viable for an off-the-shelf package," she said.

"Middle market companies will need certain specific bits of information, like bank balance reporting. You can use an off-the-shelf package for that. But where you get into larger corporations, and especially where our bookkeeping is not exactly what you call standard, I am not sure that standard packages would work."

Her views stem from knowing several cash managers disappointed with off-the-shelf packages, she said.

"They felt the company represented that they would do more. When they went to work on them, they didn't work," she said.

Another satisfied customer, this time of Bank of America's system, MicroStar, is Bob Moerchen, corporate cash manager with Outboard Marine Corp., Waukegan, Ill.

"We are still very satisfied with our system," said Mr. Moerchen.

The treasurer's office operates with a staff of three, he said, and the introduction of the workstation did not enable them to slim it down further, as was the case at American Bankers Insurance Group.

Also, the Outboard Marine treasury already had introduced a system to provide automatic general ledger updates some time ago, he said.

Continued on page 38

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The statistical data are extracted from Pensions & Investments' Performance Evaluation Report, a quarterly performance evaluation published by Pensions & Investment Age. *PIPER details comparative performance data on special equity and international funds at more than 50 banks and insurance companies. PIPER is compiled by Rogers, Casey & Barksdale Inc., Stamford, Conn.*

Technology, consumer stocks come on strong

By Chuck Paustian

Technology and consumer-oriented stocks performed well for the special equity commingled funds ranked in the top 10% for the quarter, one- and 10-year periods ended Dec. 31 in the Pensions & Investments' Performance Evaluation Report.

Although the performance of many funds was vastly improved from the previous quarter, the median fund in the universe failed to beat the Standard & Poor's 500 stock index in all but the 10-year period.

For calendar year 1985, the top performing fund was the regional bank fund managed by The First National Bank of Neenah (Wis.), with a return of 59.7%. For the same period, the S&P 500 returned 31.8% and the median manager in the universe, 27%.

The $25.3 million special opportunities equity fund managed by Lincoln National Pension Insurance Co., Fort Wayne, Ind., with a one-year return of 42.9%, made the biggest leap of the Top Five. The special opportunities fund finished fifth for year, after being ranked in the top 30% for the same period the previous quarter.

David A. Baker, president of MPT Associates Inc., New York, which manages the fund for Lincoln National, said diversification was primarily responsible for the portfolio's improved performance.

"Unlike a lot of comparable funds, the portfolio (of 25 to 40 stocks) has more issues than most and less dependence on a hot stock or two," said Mr. Baker.

The portfolio did include some technology stocks, but this was not part of any strategy to emphasize that sector. He said the fund does not have any particular sector emphasis, but rather picks stocks based on their individual merits.

"These are companies doing very well operationally but, for whatever reason, the market does not put a high (price-earnings ratio) on them," Mr. Baker said.

Stocks in the portfolio include: **American Family Corp.** (insurance); **Pearle Health Services Inc.** (optical); and **AST Research Inc.** (computer products).

The other top-performing funds for the one-year period are Citicorp Investment Management Inc., New York, emerging health care, with a return of 52.7%; Citicorp, special situation, 48%; and Fidelity Management Trust, 44.6%.

The performance of technology and consumer-oriented stocks played a more significant role in the performance rankings for the fourth quarter of 1985.

Although the median fund failed to outperform the market, those portfolios with a definite emphasis on the technology and consumer sectors leaped into the top 10% of the universe for the quarter after finishing lower in the rankings the previous quarter.

For the quarter ended Dec. 31, the S&P 500 returned 17.2%, while the median fund in the PIPER universe returned 15.4%.

The top performing fund for the quarter was the $43 million emerging growth fund managed by Irving Trust Co., New York, which returned 22.3%, up from its bottom 30% finish last quarter.

Neil T. Eigen, vice president at Irving Trust, said the fund's exposure to technology stocks, about 35% of the portfolio, has been both a curse and a blessing.

"(The fund) did not do well earlier in the year because of the overweighting of technology stocks, which have done well for us in the fourth quarter," he said.

Mr. Eigen said the fund invests in small-capitalization stocks, usually with capitalizations of $150 million or less.

He said holding the technology stocks were trying at times, but he decided to stand firm.

"The valuation of these small technology stocks was so out of line — they were hated for so long — that I felt they should be bought.

"I knew if I suffered through holding them they would perform well ... because it was just a matter of time before investors came back to these stocks," said Mr. Eigen.

Some of those stocks are: **Digital Communication Associates Inc., Emulex Corp., Wyse Technology** and **Software AG Systems Inc.**

Another fund that bounded into the top 10% was the $15 million growth fund run by First Pennsylvania Bank, Philadelphia, which was ranked in the bottom 10% the previous quarter.

F. Peter Brodie, vice president responsible for the investment of the special equity fund, said in addition to technology, the fund also had an emphasis on consumer staple stocks.

He said the fund actually re-emphasized the technology sector during the third and fourth quarters after moving out of those stocks earlier in the year.

Mr. Brodie said the fund stayed with the consumer staples and technology stocks during the third quarter, when other funds were moving into basic industries amid concerns of rising inflation.

"We did not take that route because we thought we were well positioned," said Mr. Brodie.

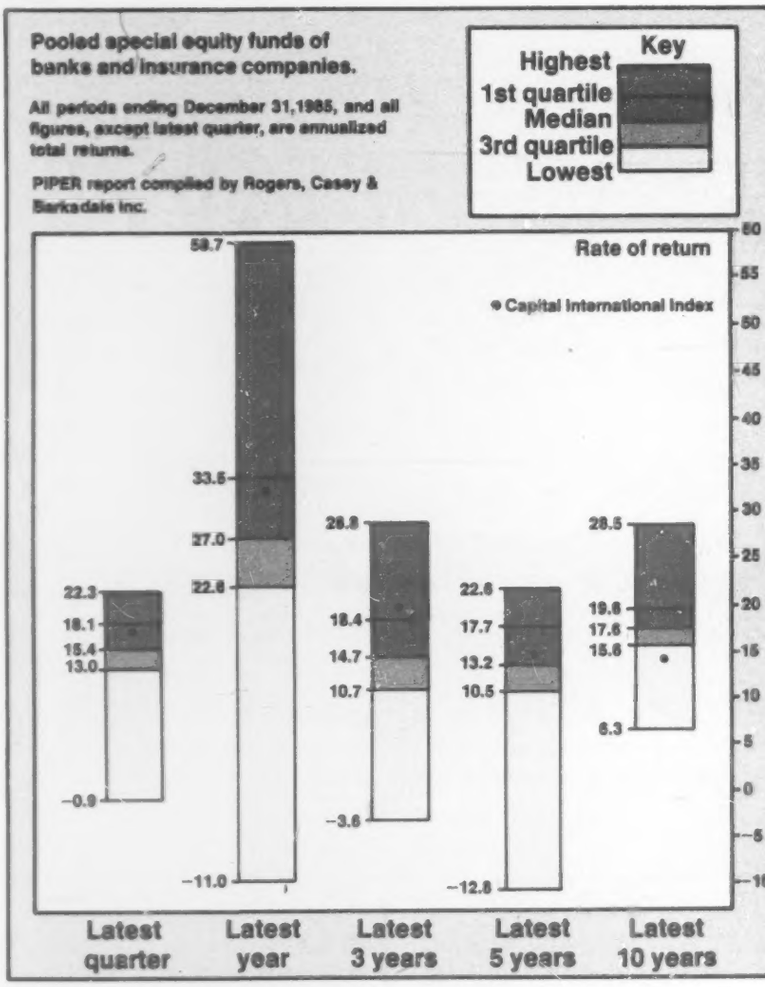
"So rather than switching to the basic industry stocks, we took the tack to stay in the consumer staples and also to re-emphasize the technology-related sector," he said.

In the consumer staples sector, some of the better performing stocks were **Maxicare Health Plans Inc., Prime Motor Inns Inc.** and **U.S. Health Care Systems Inc.**

The portfolio's stocks in the technology sector include **Ashton-Tate, Paychex Inc.** and **Monolithic Memories Inc.**

The remaining funds in the Top Five rankings for the quarter ended Dec. 31, and the previous quarter's ranking, are Merchants National Bank of Allentown (Pa.) with a return of 21.4%, bottom 10%; Fidelity Management Trust Co., Boston, 21.2%, to 30%; a n

Continued on page 18



Declining dollar aids returns for international funds

By Rose Darby

Commingled international funds scored impressive gains of as much as 60% in 1985, thanks, in part, to the steady decline of the U.S. dollar against other major currencies, Pensions & Investments' Performance Evaluation Report shows.

The fourth quarter contributed substantially to some funds' gains, especially those overweighted in the European continent.

Bank of America's $36 million international employee benefit equity fund was the top fund for the year ended Dec. 31, returning 61.4%.

The Europe, Australia and Far East index had a 56.7% total return for the year.

While international fixed-income funds also did well during the year, they were outperformed by the equity funds. The top performing bond fund returned 45.1% for the year, compared with the Shearson Lehman Government/Corporate bond index's 21.3%.

Fixed-income and equity funds, as well as global and international funds, are not separated in the international PIPER universe because of the small number of funds offered by banks and insurance companies. For that reason, Rogers, Casey & Barksdale Inc., the Stamford, Conn., firm that prepares PIPER, does not compute a median figure.

Bank of America's fund is managed by BAIMCO Ltd., the international subsidiary of BA Investment Management Corp.

While this fund was underweighted particularly in the export sectors of Japan's economy, there was some exposure to Japanese stocks that would benefit from consumer activity, such as construction stocks, said Keith Brown, chief investment officer.

"In Europe we thought growth would be somewhat anemic," said John Horseman, investment manager. "But we thought that the general improvement of these currencies against the dollar would allow substantial interest rate declines across the board.

"That brought about a very good opportunity in retailing issues where we felt high consumer spending would take place," especially in France, Belgium and the Netherlands.

Other sectors offering major gains because of the lower interest rates throughout the Continent were autos, insurance companies and utilities, Mr. Horseman said.

Citicorp's $180 million international equity fund was second for the year, returning 60%.

The fund is managed by Citicorp Investment Management, London, said Tony Watson, chief investment officer-international.

"We made gains in asset allocation by being heavily weighted in continental Europe as opposed to the United Kingdom, and heavily underweighted in Japan," he said. "In addition, we had very good performance in the German, French and Italian markets, and actually performed well in Japan, too."

Bankers Trust's $78 million international equity fund was third for the year, returning 58.2%, and Chase Manhattan Bank's $187 million global international equity fund was fourth, returning 57.5%.

Chase's fund has a non-U.S. investment mandate despite its name, said Ed Arbaugh, vice president international of Chase Investors Management, New York, which manages the fund.

In late 1984, the fund's portfolio managers studied how to improve performance after a lackluster year for international managers in general, he said.

He said they decided that stock selection was not contributing sufficiently to performance and that turnover was too high, given the higher-than-average transaction costs of foreign investment.

"So beginning in 1985, we decided to make heavy bets in weighting marketplaces and, within those markets, to have stocks which are similar — but not identical — to what was in EAFE," Mr. Arbaugh said. "Trading was not done unless an issue went against us or if it got to where we thought it should be."

Costs were reduced because turnover was almost zero in 1985, Mr. Arbaugh said.

For the quarter ended Dec. 3 international funds overweighte in continental Europe compared the EAFE had the best returns. Th Top 10 funds in the PIPER un verse all beat the index (which r turned 16.6%) for the quarter.

Centerre Trust Co.'s $82 millio Collective Fund W was the top pe former for the quarter, returnin 24.1%. That equity fund is jointl managed by Morgan Grenfell In vestment Services Ltd., Londo and Centerre, St. Louis, sai Thomas S. Darnall Jr., senior vi president of Centerre.

"We did well in the Europea markets, particularly in German the Netherlands and Switzerland Mr. Darnall said. "And compare

Continued on page

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Special equity	19
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Closed-end real estate	36
Open-end real estate	36

Technology stocks . . .

Continued from page 17

First Tennessee Bank, Memphis, 21.2%, bottom 10%.

For the three-year period ended Dec. 31, the top performing fund was Fidelity's aggressive equity fund, with a compound annual return of 28.8%, followed by Trust Company of the West, Los Angeles, 23.9%; Citicorp (special situation), 22.7%; Manufacturers Hanover Trust Co., New York, 22.7%; and First of Boston, 21.2%.

The S&P 500 returned 19.7% for the period, while the median fund had a return of 14.7%.

The $117 million uncommon value equity fund managed by Manufacturers Hanover moved up to the fourth spot for the three-year period ended Dec. 31, after being ranked 11th for the period the previous quarter.

John Spiezia, vice president at Manufacturers Hanover, said the portfolio, managed by Dorik Rozanski, vice president, does not emphasize any particular industry or market sector.

"He is looking for the big hit. He is looking for the triples and home runs relative to other value managers that look for the singles and doubles," said Mr. Spiezia.

Although Mr. Rozanski does not specifically try to identify takeover candidates, many of his stock selections acquisition targets, said Mr. Spiezia.

"Because of some of the fundamental characteristics he looks for, like strong balance sheets and large cash positions, they tend to be takeover candidates," he said.

For the five-year period, the top performing fund was Citicorp's real estate stock fund, with a compound annual return of 22.6%, followed by The First National Bank of Maryland, Baltimore, 20.8%; Chase Manhattan Bank, New York, (value equity) 19.9%; Chase Manhattan (intermediate capitalization equities), 19.7%; and First Trust Co. of St. Paul, 19.6%.

For the same period, the S&P 500 returned 14.7%, while the median fund in the universe returned 13.2%.

Chase Manhattan's $175 million intermediate capitalization equities fund moved into the top 10% for five years after being ranked in the top 40% for the period the previous quarter.

Neal Miller, vice president of Chase Investors Management Corp., New York, the investment management arm of Chase Manhattan Bank, said the growth fund uses a top-down approach in making its stock selections.

For example, when the nation entered its personal health kick a few years ago, the fund tried to locate companies that would benefit from the phenomenon.

"Our special twist here is that we have an overall structure to determine where the change is occurring, and then find specific companies that can take advantage of the change," said Mr. Miller.

Another national trend recognized by the fund was the move back to basics. As a result, the fund purchased stock in companies that manufactured blue jeans and sweatshirts, he said.

"From the general, you work toward the specific of an idea, then you get hold of the (specific company)," Mr. Miller said.

For the 10-year period ended Dec. 31, the top performing fund was the growth fund managed by MSecurities Corp., Dallas, with a compound annual return of 28.5%; followed by Equitable Bank, Baltimore, 27.1%; Northern Central Bank, Williamsport, Pa., 24.7%; Chase Manhattan (special equity), 23.4%; and First of Maryland, 23.3%.

For the period, the S&P 500 turned 14.4%, while the med fund in the universe surpassed index with a return of 17.6%.

Equitable's $2 million special uity fund is broken into three tions — 50% core, 25% new iss and 25% restructurings/tu arounds — said W. Patrick Fla gan, vice president and head of employee benefit investment gr at Equitable.

"It's an interesting mixture, not all one (investment) style. part of three or four differ styles," said Mr. Flanigan.

Some of the top perform stocks in the fund's portfolio **Baltimore Bancorp., King Wo Productions Inc., Audio/Vi Affiliates Inc.** and **Suburb Bancorp.**

PIPER is compiled by the c sulting firm of Rogers, Casey Barksdale Inc., Stamford, Conn.

Commingled special equity fund

3-month returns

Irving Trust (II), N.Y. .....
First Pennsylvania Bank .....
Merchants National, Pa. .....
Fidelity Mgmt. Trust, Mass. .....
First Tennessee Memphis .....
Lincoln National Pens, Ind. .....
Central Fidelity, Va. .....
Chase Manhattan, N.Y. .....
Texas Commerce .....
Trust Co. of the West .....
Maryland National (II) .....
Ameritrust, Ohio .....
Michigan Natl. of Grand Rapids .....
Manufacturers Hanover, N.Y. .....
First Alabama, Mobile .....
Citicorp, N.Y. .....
Manufacturers Detroit (Fund I) .....
Norwest Bank, Minn. .....
Chemical Bank (F), N.Y. .....
First of Neenah, Wis. .....
Security Pacific (Fund G), Calif. .....
Shawmut Bank, Mass. .....
CIGNA Corp., Conn. .....
Standard & Poor's 500 .....

1-year returns

First of Neenah (regional), Wis. .....
Citicorp (emerging health), N.Y. .....
Citicorp (spec. sit.), N.Y. .....
Fidelity Mgmt. Trust, Mass. .....
Lincoln Natl. Pens, Ind. .....
Equitable Bank, Md. .....
Metropolitan Life (No. 43), N.Y. .....
First of Boston (II), Mass. .....
Bankers Trust, N.Y. .....
Security Pacific (Fund G), Calif. .....
Associated Kellogg, Wis. .....
Chase Manhattan, N.Y. .....
Trust Co. of the West .....
LaSalle National, Ill. .....
Michigan Natl. of Grand Rapids .....
Connecticut National Bank .....
Northern Central, Pa. .....
First of Minneapolis (No. 20) .....
First Pennsylvania Bank .....
Mellon Bank, Pa. .....
Society National, Ohio .....
Texas Commerce .....
First of Neenah, Wis. .....
Standard & Poor's 500 .....

3-year returns

Fidelity Mgmt. Trust, Mass. .....
Trust Co. of the West .....
Citicorp (Spec. sit.), N.Y. .....
Manufacturers Hanover, N.Y. .....
First of Boston, Mass. .....
Republic National, Dallas .....
Provident National, Pa. .....
First Trust St. Paul .....
Citicorp (R.E. stock), N.Y. .....
National Bank of Detroit .....
LaSalle National, Ill. .....
Connecticut National Bank .....
Mutual of New York .....
Standard & Poor's 500 .....
Society National, Ohio .....
United Virginia Bank .....
Shawmut Bank, Mass. .....
Mellon Bank, Pa. .....
First of Boston (II), Mass. .....
Chase Manhattan, N.Y. .....
Merchants National (No. 2), Ind. .....
Associated Kellogg, Wis. .....

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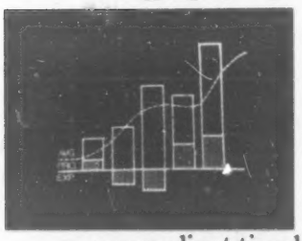
Service.



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5-year returns

	%
Citicorp (R.E. stock), N.Y.	22.6
First of Maryland	20.8
Chase Manhattan (Value), N.Y.	19.9
Chase Manhattan (Int. cap.), N.Y.	19.7
First Trust St. Paul	19.6
First of Boston, Mass.	19.5
Manufacturers Hanover, N.Y.	19.5
Citicorp (Spec. sit.), N.Y.	19.3
Provident National, Pa.	18.7
Norwest Bank, Minn.	18.4
Chase Manhattan (Spec.), N.Y.	18.4
Mutual of New York	18.0
Prudential, N.J.	17.9
Merchants Natl. (No. 2), Ind.	17.8
Connecticut National Bank	17.8
Bankers Trust, N.Y.	17.7
First Pennsylvania Bank	17.7
Standard & Poor's 500	**14.7**

10-year returns

	%
MTrust, Texas	28.5
Equitable Bank, Md.	27.1
Northern Central, Pa.	24.7
Chase Manhattan, N.Y.	23.4
First of Maryland	23.3
Bankers Trust, N.Y.	23.2
Connecticut Bank & Trust	20.5
Provident National, Pa.	20.1
Norwest Bank, Minn.	19.9
Morgan Guaranty, N.Y.	19.8
Standard & Poor's 500	**14.4**

Commingled international funds

3-month returns

	%
Aetna Montagu, Conn.	15.8
American National, Chicago	15.6
Bank of America (equity), Calif.	17.0
Bank of America (fixed), Calif.	14.4
Bankers Trust, N.Y.	18.6
Bessemer Trust, N.Y.	23.8
EAFE	**16.6**
Centerre Trust, Mo.	24.1
Chase Manhattan, N.Y.	19.8
CIGNA Corp., Conn.	18.3
Citicorp (equity), N.Y.	18.8
Citicorp (fixed), N.Y.	9.9
Crocker National, Calif.	16.1
Fidelity Mgmt. Trust, Mass.	20.7
First of Chicago (DLR fixed)	7.1
First of Chicago (equity)	20.6
First of Chicago (non-DIV fixed)	7.9
HT Investors, R.I.	19.7
IDS Trust, Minn.	21.5
Marine Midland, N.Y.	13.1
Mellon Bank, Pa.	12.4
Morgan Guaranty (bond), N.Y.	4.4
Morgan Guaranty (equity), N.Y.	18.5
Prudential (foreign bond), N.J.	8.2
Prudential (global bond), N.J.	10.9
Republic National, Dallas	23.5
Travelers Hill Samuel, Conn.	23.3
US Trust, N.Y.	14.4

1-year returns

	%
Aetna Montagu, Conn.	56.7
American National, Chicago	53.3
Bank of America (equity), Calif.	61.4
Bank of America (fixed), Calif.	45.1
Bankers Trust, N.Y.	58.2
Bessemer Trust, N.Y.	55.8
EAFE	**56.7**
Centerre Trust, Mo.	49.3
Chase Manhattan, N.Y.	57.5
CIGNA Corp., Conn.	55.2
Citicorp (fixed), N.Y.	60.0
Citicorp (equity), N.Y.	39.4
Crocker National, Calif.	32.4
Fidelity Mgmt. Trust, Mass.	50.8
First of Chicago (DLR fixed)	21.2
First of Chicago (equity)	56.1
First of Chicago (non DLR fixed)	37.6
HT Investors, R.I.	46.6
IDS Trust, Minn.	54.8
Marine Midland, N.Y.	51.2
Mellon Bank, Pa.	50.5
Morgan Guaranty (bond), N.Y.	30.3
Morgan Guaranty (equity), N.Y.	53.2
Prudential (foreign bond), N.J.	37.7
Prudential (global bond), N.J.	43.2
Republic Natl., Dallas	45.1
Travelers Hill Samuel, Conn.	48.7
US Trust, N.Y.	38.8

3-year returns

	%
American National, Chicago	24.6
Bank of America (equity), Calif.	22.3
Bank of America (fixed), Calif.	12.6
Bankers Trust, N.Y.	27.8
Bessemer Trust, N.Y.	20.9
EAFE	**28.2**
Centerre Trust, Mo.	21.8
Chase Manhattan, N.Y.	13.7
Citicorp (fixed), N.Y.	24.5
Citicorp (equity), N.Y.	10.3
Crocker National, Calif.	16.7
Fidelity Mgmt. Trust, Mass.	22.7
First of Chicago (DLR fixed)	17.1
First of Chicago (equity)	24.4
First of Chicago (non DLR fixed)	12.3
HT Investors, R.I.	15.8
IDS Trust, Minn.	29.1
Mellon Bank, Pa.	19.9
Morgan Guaranty (bond), N.Y.	10.4
Morgan Guaranty (equity), N.Y.	21.9
Prudential (foreign bond), N.J.	12.4
Prudential (global bond), N.J.	16.9
Travelers Hill Samuel, Conn.	23.5
US Trust, N.Y.	22.3

5-year returns

	%
American National, Chicago	14.1
Bankers Trust, N.Y.	16.1
Bessemer Trust, N.Y.	11.0
EAFE	**15.6**
Citicorp (fixed), N.Y.	13.2
Citicorp (equity), N.Y.	7.3
Crocker National, Calif.	5.1
First of Chicago (DLR fixed)	17.4
First of Chicago (equity)	14.1
First of Chicago (non DLV fixed)	8.9
Morgan Guaranty (bond), N.Y.	9.8
Morgan Guaranty (equity), N.Y.	12.8
US Trust, N.Y.	13.2

10-year returns

	%
EAFE	**16.3**
First of Chicago (equity)	14.1
Morgan Guaranty (equity)	15.4
US Trust, N.Y.	16.8

Declining dollar aids funds . . .

Continued from page 17

to other international managers, we held an above-average exposure to Japanese stocks."

Many Japanese high-technology stocks, which languished during most of 1985, rebounded sharply in the last quarter, Mr. Darnall said. "So, returns from the Japanese market were very positive, whereas they tended to hurt one during the early part of the year."

The fund's exposure to Japanese equities moved to a 44% weighting at the end of the quarter, from 39% at the beginning, he said.

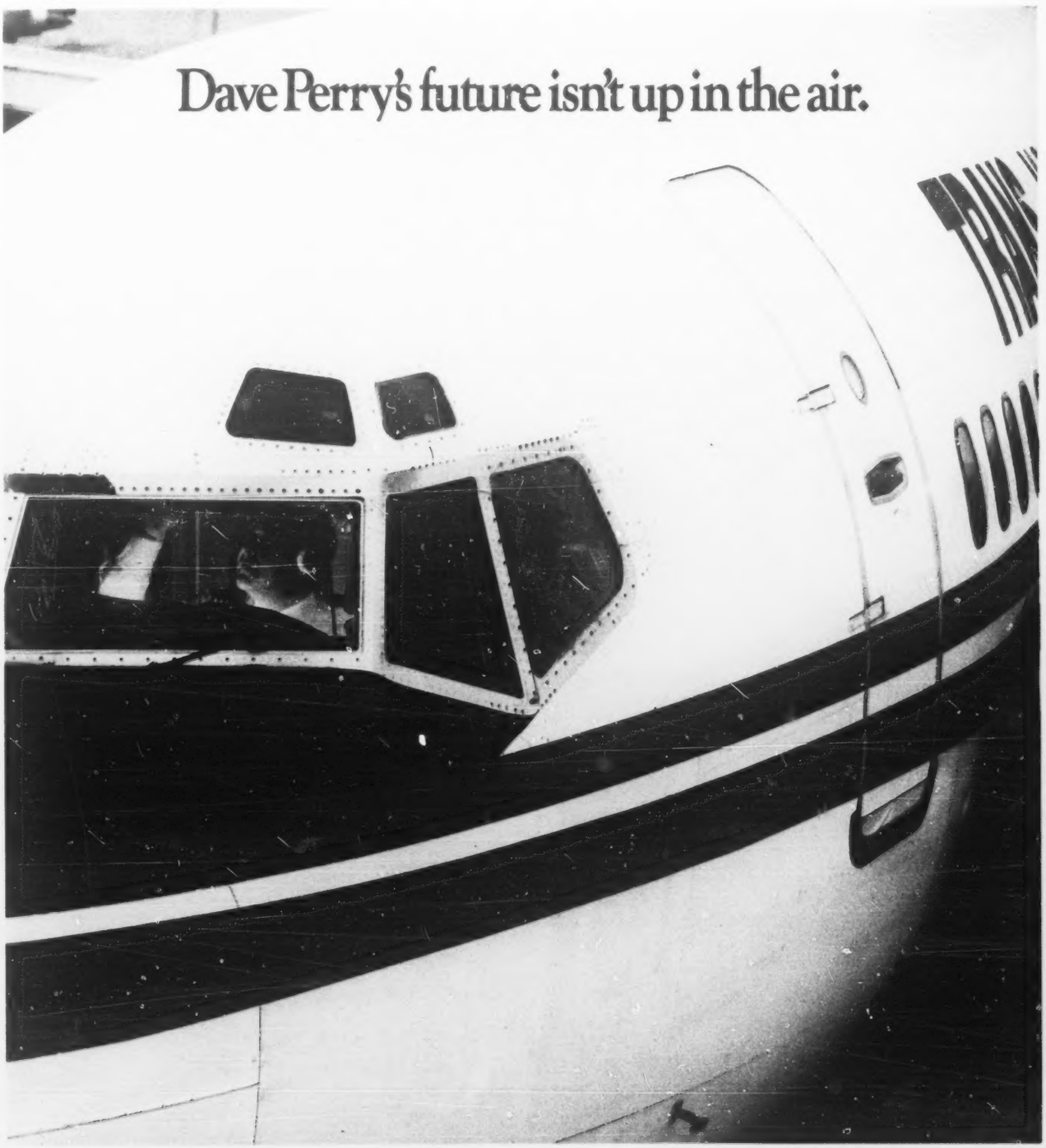
For the coming year, "we're still going to get the currency wind at our backs rather than in the face," Mr. Darnall said. "That will continue throughout this year and that's a positive, very clearly."

On a macroeconomic level, the recent decline in oil prices will be positive for foreign economies, he added.

Bessemer Trust Co.'s Fund E, was second for the quarter, returning 23.8%, followed by Republic-Bank Dallas' International Stock fund with 23.5%; Travelers Hill Samuel International Ltd.'s Separate Account W, 23.3%; and IDS Trust

Continued on page 20

Dave Perry's future isn't up in the air.



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Real Estate Open-end funds

Period ended Sept. 30

1-year returns

	%
Aetna Life & Cas. (PMSA), Conn.	12.4
Aetna Life & Cas. (RESA), Conn.	9.4
Bank of America, Calif.	3.7
Bank One Trust, Columbus	14.5
Bankers Life, Iowa	9.8
Canada Life Assurance	16.5
Chase Manhattan, N.Y.	15.6
Chemical Bank, N.Y.	15.1
CIGNA Corp., Conn.	14.5
Citicorp, N.Y.	18.4
Consumer Price Index	**3.2**
Crocker National, Calif.	7.9
Equitable Life, N.Y.	11.9
First of Boston, Mass.	11.3
First of Chicago	10.8
First of Minneapolis	12.0
Goldman, Sachs, N.Y.	10.6
Interfirst Bank, Dallas	11.7
John Hancock, Mass.	7.2
Lloyds Bank, Calif.	7.0
Massachusetts Mutual	11.3
Mercantile Trust, Mo.	8.6
Metropolitan Life, N.Y.	16.5
Metropolitan Life (Tower Fnd.)	9.4
Morgan Guaranty, N.Y.	13.9
Mutual Benefit Life, N.J.	20.0
NCNB National Bank, N.C.	16.0
New England Mutual	20.1
Phoenix Mutual, Conn.	19.0
Prudential (MORISA), N.J.	19.7
Prudential (PRIMOR), N.J.	16.0
Prudential (PRISA), N.J.	9.7
Republic Natl., Dallas	11.4
Seafirst Bank, Wash.	5.7
Sun Bank, Fla.	11.0
Third Natl., Nashville	8.3
Travelers, Conn.	7.5
United Virginia Bank	10.6
Wachovia Bank, N.C.	16.8
Wells Fargo Rlty. Adv., Calif.	9.1

3-year returns

	%
Aetna Life & Cas. (PSMA), Conn.	15.5
Aetna Life & Cas. (RESA), Conn.	11.5
Bank of America, Calif.	8.5
Bank One Trust, Columbus	11.1
Bankers Life, Iowa	11.2
Canada Life Assurance	12.9
Chase Manhattan, N.Y.	13.2
Chemical Bank, N.Y.	14.0
CIGNA Corp., Conn.	14.8
Citicorp, N.Y.	10.9
Consumer Price Index	**3.3**
Crocker Natl., Calif.	9.7
Equitable Life, N.Y.	13.5
First of Boston, Mass.	12.8
First of Chicago	12.6
First of Minneapolis	14.4
Interfirst Bank, Dallas	12.9
John Hancock, Mass.	10.1
Massachusetts Mutual	10.7
Mercantile Trust, Mo.	11.1
Metropolitan Life, N.Y.	16.5
Metropolitan Life (Tower Fnd.)	15.1
Morgan Guaranty, N.Y.	16.8
Mutual Benefit Life, N.J.	17.0
NCNB Natl. Bank, N.C.	16.8
New England Mutual	24.3
Phoenix Mutual, Conn.	17.6
Prudential (MORISA), N.J.	16.9
Prudential (PRIMOR), N.J.	16.1
Prudential (PRISA), N.J.	10.9
Republic Natl., Dallas	10.4
Seafirst Bank, Wash.	8.4
Sun Bank, Fla.	11.3
Third Natl., Nashville	9.2
Travelers, Conn.	8.2
United Virginia Bank	11.6
Wachovia Bank, N.C.	11.9
Wells Fargo Rlty. Adv., Calif.	8.8

5-year returns

	%
Aetna Life & Cas. (RESA), Conn.	12.6
Bank of America, Calif.	10.7
Bank One Trust, Columbus	14.6
Chemical Bank, N.Y.	15.5
Consumer Price Index	**5.1**
Crocker National, Calif.	10.8
Equitable Life, N.Y.	13.8
First of Boston, Mass.	13.3
First of Chicago	13.6
Interfirst Bank, Dallas	13.1
John Hancock, Mass.	11.1
Metropolitan Life, N.Y.	15.7
Morgan Guaranty, N.Y.	17.0
NCNB National Bank, N.C.	16.4
Prudential (PRISA), N.J.	11.7
Travelers, Conn.	11.1
Wachovia Bank, N.C.	15.2
Wells Fargo Rlty. Adv., Calif.	11.6

1st-quarter PIPER will run April 28.

10-year returns

	%
Bank of America, Calif.	10.6
Consumer Price Index	**7.0**
Equitable Life, N.Y.	12.9
First of Boston, Mass.	12.3
First of Chicago	12.1
Metropolitan Life, N.Y.	13.3
Morgan Guaranty, N.Y.	19.3
Prudential (PRISA), N.J.	14.7
Wachovia Bank, N.C.	14.9
Wells Fargo Rlty. Adv., Calif.	12.4

Real Estate Closed-end funds

Period ended Sept. 30

1-year returns

	%
Aetna Life & Cas., Conn.	17.9
Coldwell Banker (Fund II)	14.9
Coldwell Banker (Fund III)	8.3
Coldwell Banker (Fund IV)	10.9
Coldwell Banker (Fund V)	18.9
Coldwell Banker (Fund VI)	9.2
Coldwell Banker (Fund VII)	14.2
Consumer Price Index	**3.2**
JMB Institutional (Trust I)	18.0
JMB Institutional (Trust II)	16.5
John Hancock, Mass.	21.3
Landauer Advisors	18.9
LaSalle Advisors, Ill.	17.6
Metropolitan Life, N.Y.	9.3
Rosenberg (Mid-Am I)	9.0
Rosenberg (Mid-Am II	14.6
Rosenberg (REEF I)	6.9
Rosenberg (REEF II)	11.6
Rosenberg (REEF III)	10.9
Rosenberg (REEF IV)	9.2
Rosenberg (USA I)	10.7
Rosenberg (USA II)	7.4
Sarofim Trust Co.	21.4
State Street Bank (Fund I), Mass.	20.5
State Street Bank (Fund II)	10.9

3-year returns

	%
Coldwell Banker (Fund II)	15.9
Coldwell Banker (Fund III)	10.0
Coldwell Banker (Fund IV)	12.2
Coldwell Banker (Fund V)	18.2
Coldwell Banker (Fund VI)	10.4
Coldwell Banker (Fund VII)	11.4
Consumer Price Index	**3.3**
JMB Institutional (Trust I)	18.5
LaSalle Advisors, Ill.	16.7
Rosenberg (Mid-Am I)	9.8
Rosenberg (Mid-Am II)	13.4
Rosenberg (REEF I)	10.9
Rosenberg (REEF II)	12.4
Rosenberg (REEF III)	12.8
Rosenberg (REEF IV)	9.0
Rosenberg (USA I)	12.2
Rosenberg (USA II)	12.7
State Street Bank (Fund I), Mass.	16.3

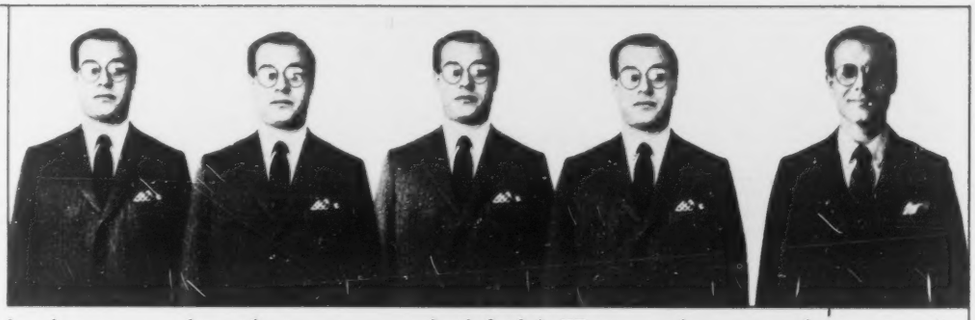
5-year returns

	%
Coldwell Banker (Fund II)	21.3
Coldwell Banker (Fund III)	11.9
Coldwell Banker (Fund IV)	15.0
Coldwell Banker (Fund V)	17.2
Consumer Price Index	**5.1**
Rosenberg (REEF I)	14.7
Rosenberg (REEF II)	14.1

10-year returns

	%
Coldwell Banker (Fund II)	21.2
Consumer Price Index	**7.0**

When you're the new investment management firm on the block, you'd better have a meaningful point of difference.



There's nothing particularly new about a new investment management firm. Most are merely clones of existing firms, adding little to an already overcrowded field. To stand out in this crowd, one has to provide a superior product. That's where we come in. We're Beacon Capital Management.

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Beacon Capital Management

New Castle . . .

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Inglesby said, but it left open the possibility of increasing the allocation in the future.

The pension system's current asset mix is 51% equities, 38% fixed income and 11% cash and short-term investments, Mr. Inglesby said. He expects the real estate commitments will be funded from the short-term portfolio and new contributions.

There are no plans to reduce the amounts handled by its current stock and bond managers.

New Castle County was assisted in its search for real estate managers by the Wayne, Pa., office of SEI Funds Evaluation Services. SEI had assisted the system in searches for equity and fixed-income managers, and provides it with investment performance measurement. ■

Money movers

Virginia Supplemental System

RICHMOND, Va. — The $4.5 billion Virginia Supplemental Retirement System has committed $20.8 million for a half interest in a $41.5 million participating mortgage secured by two Dallas properties with 435,000 square feet of retail and office space.

The loan, which the Virginia fund made in partnership with the general account of the Equitable Life Assurance Society of the United States, is Virginia's first investment under a $100 million participating mortgage program begun last fall (*Pensions & Investment Age*, Nov. 25).

The 10-year mortgage bears a coupon of 10% and entitles the lenders to share in 50% of the properties' income and appreciation.

New Hampshire Retirement

CONCORD, N.H.— The roughly $778 million New Hampshire Retirement System hired The Boston Co. to manage a $45 million equity account, said Harry M. Descoteau, executive secretary.

Assets for the new account came from the transfer of an equity portfolio from a former, unnamed investment manager, he said.

Vermont Retirement Systems

MONTPELIER, Vt. — The $450 million Vermont State Retirement Systems hired State Street Bank & Trust Co., Boston, as custodian, effective April 1, said Edwin C. Gallison, deputy state treasurer.

State Street Bank replaces Shawmut Bank of Boston, Mr. Gallison said. State State Bank also will provide performance measurement, which had been handled by SEI Funds Evaluation Services, Chicago.

Norfolk Retirement System

NORFOLK, Va. — The Norfolk Employees' Retirement System, which has about $230 million in assets, appointed United Virginia Bank as custodian and trustee, according to A.N. Gibson, executive secretary of the system.

Norfolk Employees' had used Sovran Bank as custodian, he said. It was dropped after the contract was put out to bid, as is required under a public procurement act.

Carnegie Institute

WASHINGTON — Carnegie Institute of Washington, an endowment fund with $175 million in assets, hired Bank of New York as custodian bank, according to John Lawrence, controller.

The Carnegie Institute uses Bank of New York as custodian for its $30 million retirement fund. The endowment fund had been with Morgan Guaranty Trust Co. The switch was made because Bank of New York provides online information services.

Charles A. Dana Foundation

NEW YORK — The Charles A. Dana Foundation, which has assets totaling $145 million, has hired the Bank of New York to serve as its master custodian, confirmed Herbert Vine, controller. The Bank of New York replaced Manufacturers Hanover Trust Co., New York.

International Teamsters

WASHINGTON — The International Brotherhood of Teamsters has hired Morley Capital Management Inc., Lake Oswego, Ore., to run a $35 million portfolio of guaranteed investment contracts, said Eugene Burroughs, director-investment department.

The assets, which are part of the Teamsters' $160 million in general operating funds, previously were invested in short-term instruments.

Earlham College endowment

RICHMOND, Ind. — The $84 million Earlham College endowment fund has hired Disciplined Investment Advisors, Evanston, Ill., to run a $15 million equity account, said Richard K. Smith, vice president-financial affairs.

Disciplined Investment replaces an undisclosed equity manager, who was terminated for poor performance, Mr. Smith said.

In addition, the fund selected Ariel Capital Management, Chicago, and Friess & Associates, Greenville, Del., to run a total of $1.8 million in small- to medium-capitalized stocks. Those assets were taken from cash.

Investment Management Control Systems, Boston, was the consultant.

San Joaquin Painters' Trust

SAN FRANCISCO — The about $6 million San Joaquin Painters' Pension Trust hired Wells Fargo Bank as sole manager for the fund.

Assets will be managed under Wells Fargo's three-way asset allocation system, which uses a mix of stocks, bonds, and money market instruments.

General Public Utilities Corp.

READING, Pa. — General Public Utilities Corp. hired Neuberger & Berman Pension Management, New York, to run an active fixed-income portfolio, said William M. Pammer, GPU's financial services director.

Frank Russell Trust Co., Tacoma, Wash., helped screen managers.

AM International Inc.

CHICAGO — AM International Inc. hired Harris Trust & Savings Bank, Chicago, as trustee of its profit-sharing plan, replacing State Street Bank & Trust Co., Boston, said Dessa Gannakopoulos, AM's corporate manager of employee benefits.

The plan was created after AM's reorganization.

Northwestern Memorial Hospital

CHICAGO — Northwestern Memorial Hospital, with about $200 million in tax-exempt assets, changed to specialty from balanced managers and consolidated the funds under a new custodian.

Hired were Trinity Investment Management Corp., Boston, for active equity management; American National Bank and Trust Co., Chicago, for a stock index fund; and Neuberger & Berman Pension Management, New York, for fixed income, a hospital spokesman said. The allocations to each were not available.

Terminated were balanced managers Stein, Roe & Farnham, Chicago; Scudder, Stevens & Clark Inc., Chicago; and Wall, Patterson, Hamilton & Allen, Atlanta.

Brown Brothers Harriman & Co. was retained as a balanced manager.

Northern Trust Co., Chicago, was hired as master trustee for the pension fund and custodian for the other assets — a foundation fund and a pooled investment fund.

First National Bank of Chicago had been master trustee of the pension fund. Harris Trust and Savings Bank, Chicago, had been custodian of the other assets, except those managed by Brown Brothers Harriman, which acted as custodian.

The Chicago office of Callan Associates Inc. assisted in the hirings.

GenRad Inc.

CONCORD, Mass. — The GenRad Inc. pension fund has switched a roughly $10 million equity account to Lazard Freres Asset Management, New York, from Rollert & Sullivan Inc., Boston, according to C.J. LaHanas, vice president.

The fund, with an estimated $25 million in assets, made the change because of type of service needed, performance and changeover in Rollert & Sullivan's management, he said.

D.C. Area Carpenters Union

The Washington D.C. Area Carpenters Union pension fund has hired United Virginia Bank, Richmond, Va., as custodian for its fund. Wayne LaRochelle, marketer of the bank's custodial services, confirmed the hiring.

Jacksonville Plumbers

JACKSONVILLE, Fla. — The Jacksonville Plumbers & Pipefitters, with $13.5 million in pension assets, hired Investment Advisers Inc., Minneapolis, and Lowe, Brockenbough, Tierney & Tattersall Inc., Richmond, Va. The fund's assets will be split evenly between the two managers, said David Mast, vice president of Administrative Services Inc.

The assets previously were managed by Professional Capital Management Inc., Jacksonville.

Corporate finance . . .

Continued from page 12

Condon. But once familiar with the personal computer, he said, you save a lot of time, ensure better accuracy and do repetitive calculations quickly.

Few of the firms surveyed tied in their personal computers with their mainframe computers, although they have the capability.

"We haven't had much need for it," Mr. van Patten said. "The capability is there."

At Piedmont Aviation Inc., Winston-Salem, N.C., A.J. Carter, assistant treasurer said of its two IBM PC-XTs bought last year, "It greatly improves productivity, especially for things that are repetitive."

Piedmont, which leases many of its aircraft, has put its lease agreements on the personal computer to display conditions and terms so the company knows the dates when they have to be fulfilled, he said.

Before, Piedmont had to flip through hundreds of pages regularly to check lease requirements.

In addition, it projects cash flow requirements, forecasting when to finance or doing side-by-side comparisons of leasing vs. buying aircraft.

The personal computer "helped keep us from increasing staff," Mr. Carter added.

"By definition, it means we can do some work with fewer people," Kaiser's Mr. van Patten said.

But no one in the corporate finance departments of the companies surveyed lost a job because of the introduction of personal computers.

With the personal computers, many analysts also are typing their own memorandums and letters, rather than sending them to secretaries. "We no longer are writing memos and having them typed up," said Mr. van Pattan.

At Maytag Co., Newton, Iowa, John P. Tolson, director of financial reporting, said, "We have not reduced staff at this point due to the personal computer. But I can see at some time that may be a possibility. The p.c. has probably enabled us to work with less overtime.

"We do a lot of consolidation work on the p.c.," Mr. Tolson said, combining financial data of four divisions using Symphony software. Also, the firm used it to forecast operating budgets and long-term financing modeling.

Writing with word-processing software has been an unexpected benefit to financial analysts, said many of the executives. Like a number of others, Mr. van Patten said, "I find I write better by sitting down on the p.c. than by scribbling down on paper."

But Maytag's Mr. Tolson said, "We don't really use the word-processing capabilities. It's probably the least utilized function."

All the executives described the personal computer as a tool, not a decision-maker. They said it weaves no magic; essentially it does the same thing the financial executives were doing before by hand or on their mainframes, except faster, better and less expensively.

It also allows firms to do more financial anaylsis internally, rather than consult with investment bankers for such matters as cash flow scenarios.

"When you rely less on Wall Street you can keep more proprietary information inside," said Chrysler's Mr. Capo, referring not only to financing but also potential acquisitions and divestitures.

With personal computers, Mr. Capo said, "We've been able to lessen the fishbowl effect of letting them (investment bankers) in on our thinking. If you tell the Street you are thinking about a debt or equity issue — just thinking about it — there's no end to the investment bankers knocking on your door."

Mr. Capo added, "Investment bankers that specialize in a product might do an analysis to slant it in favor of their product — I don't mean to imply anything unethical.

"Investment bankers are, above all, sales people. They are ultimately hoping to do the business."

In addition, Mr. Capo said Chrysler compares pro forma combinations of the corporation with potential acquisitions, projecting five years and looking at the profit potential and affordability of financing.

Among other things, he said, Chrysler uses the personal computer to view scenarios of stock splits, dividend policy, share repurchases and capital structure.

Personal computers generally mean analysis is done without pencil and paper.

"Before the personal computer, most of the work was done manually," said Mr. Tolson. "I can't think of an instance when we used the mainframe."

Doing things manually meant slower computation and less thorough analysis, mainly because of the sheer human limits to try to calculate numerous scenarios.

Mr. Capo, who said Chrysler used to rely on paper spreadsheets and time-sharing off mainframes, said the personal computer has improved the quality of analysis. "Now we can look at many more variables; there is greater sensitivity analysis."

He especially noted the improved presentations, such as for the finance committee, with charts and graphs. "Our work is only as good as you get someone to understand it," he added.

Maytag has had two IBM PC-ATs in corporate finance for a little more than a year, Mr. Tolson said. The company spent about $20,000 for them, including related equipment such as printers.

Lockheed has four personal computers — one IBM PC, two Compaq Deskpros that are the equivalent of the IBM PC-XT and a Compaq 286, the equivalent of the IBM PC-AT, Mr. Kokoszka said. He said Lockheed bought Compaqs because they are about 50% faster than equivalent IBMs.

Right now, Hartmarx is developing a model on its personal computers to project its monthly cash needs and financing sources, Mr. Condon said.

In addition, it plans to create a data base of financial and other statistics of other firms in the clothing industry for comparisons with Hartmarx, "so we can make a case" to securities analysts in presentations, Mr. Condon said.

Among other areas in which Hartmarx uses its personal computers is financial analysis, including a 10-year projection of its capital structure under various debt and equity ratios and various acquisition scenarios.

It compares the cost of leasing vs. buying and assessing loan terms. "Many times we get a variety of quotes from banks," Mr. Condon said. The personal computer "is useful in negotiating loans."

In addition, Hartmarx has put together a data base of its current and past loans. "Over time, it tells us who we are consistently borrowing money from and how their rates compare," Mr. Condon said.

Hartmarx uses personal computers for capital investment analysis. To evaluate potential profitability of project alternatives, Mr. Condon said Hartmarx compares the net present value of discounted cash flows.

In the recent move of its corporate headquarters, Mr. Condon said Hartmarx used the personal computer to compare the cost of office space and furnishings.

He said the computer helps evaluate the benefits of the purchase or sale of tax credits.

In addition, it helps monitor the performance of Hartmarx's operating units.

"If their bank loans are higher than they should be according to our model, we say, 'What is this? Why does it need more cash?' " ■

Trial and error gets . . .

Continued from page 14

"With the workstation, our whole routine is automated," he said, adding the system gathered information, parsed into a format and sent it to the mainframe.

But there are some little problems with the system that MicroStar's programming staff are still working on, he said.

The investment module, for example, can't yet handle some kinds of investments, such as floating-rate notes, tax-exempts and variable rate demand notes, he said.

However, MicroStar has said it has produced an improved version of its software and will shortly make this available to all users, he said.

Apart from that, Outboard Marine's system seems to suffer from a glitch similar to Ms. Graff's initial system: The bank account relationship manager module doesn't print out the way he wants it to.

If the operator requests a printout for a particular bank and that bank features five different calling officers, the printer will print the name of the bank along with the other details five times, with each calling officer listed separately, he said.

On the other hand, service and support was good, he said.

MicroStar also was given a high rating by the cash managers surveyed by Treasury Strategies.

As a rule, there seemed to be little dissatisfaction with the workstations, according to Mr. Poje. The average score was 45 out of 60.

However, of the 500 corporations interviewed, only 95 used treasury workstations, he said.

He added the survey team's definition of a treasury workstation excluded microcomputers set up to do automated balance reports in conjunction with a spreadsheet interface. ■

Pensions & Investment Age

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Carbide will invest guaranteed annuity assets

By Alan Krauss

DANBURY, Conn. — Union Carbide Corp. has negotiated a radical new form of annuity contract under which Prudential Asset Management Co. guarantees payment of liabilities of the $2.8 billion defined benefit plan Carbide terminated last year — without assuming management of the assets backing the annuities.

Under traditional annuity contracts, the issuing insurer invests, as part of its general account, the assets backing the annuities. Under the Carbide/Prudential contract, Carbide retains full discretion over the investment management of the assets, according to James A. O'Connell, Carbide assistant treasurer and director of pension fund investment services.

The new annuity goes much further than so-called "participating annuities," which allow the purchaser to share in any favorable investment or actuarial experience in connection with the annuities.

The contract issued by Prudential, Newark, N.J., allows Carbide to benefit from investment returns above those required to provide the annuities.

It covers liabilities accrued under the terminated plan through Sept. 30, 1985. Carbide recaptured $500 million in excess assets from the terminated plan, leaving $2.3 billion to back the annuity contract. The market value of the assets had increased to $2.5 billion by Dec. 31.

At the time it was terminated, the plan's liabilities were valued at $1.8 billion, but had increased to $2.2 billion by Dec. 31 because of declining interest rates. (The lower the interest rate, the more money is needed to purchase annuities to cover benefits.)

The two companies expect Prudential's guarantee will pass muster with federal agencies, which require annuities be purchased to to cover liabilities before excess assets may be recovered.

The Pension Benefit Guaranty Corp. issued a notice of sufficiency for the Carbide plan termination in November, a PBGC spokesman said. Following preliminary discussions with the Internal Revenue Service, "we were encouraged to file a revenue ruling request . . . (and) we believe they'll be favorably disposed," Mr. O'Connell said.

To compensate for the risk of guaranteeing the annuities, Prudential will receive an annual fee of about 25 basis points, based on the liabilities in the contract.

The annuity contract developed by Prudential at Carbide's request contains safeguards for the insurer.

"The contract is structured to turn on an asset-liability ratio . . . that is, the ratio of assets in the contract relative to the liabilities in the contract," Mr. O'Connell said. At year end, for example, when the contract covered $2.2 billion in liabilities and $2.5 billion in assets, the ratio was 1.13.

The contract requires a certain percentage of the assets to be invested in high-quality bonds or a dedicated bond portfolio, depending on the asset-liability ratio.

But Carbide's longstanding formal investment policy calls for it to segregate a pool of assets sufficient to cover expected benefit payments for five years. That money will be invested in a pool of AA rated bonds with maturities of less than 10 years.

This "contingency reserve," typically 25% to 27% of assets, meets the minimum requirement under the Prudential contract.

When the asset-liability ratio is above 1.2, the dedication requirement is replaced by Carbide's internal contingency reserve requirement. "When that ratio is above 1.2, we effectively have no constraints on our investment management," Mr. O'Connell said.

When the asset-liability ratio is between 1.15 and 1.2, Prudential requires half the liabilities in the contract to be covered by dedicated bonds. The forced dedication rises to

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Firms' early use of FASB rules boosts income

By Chuck Paustian

Several major corporations have improved their reported net income by using the Financial Accounting Standards Board's new pension accounting rules earlier than required.

Although the deadline for mandatory compliance is still at least a year away, many large companies have adopted FASB statements 87 and 88, all with positive results.

In addition, industry observers said many smaller companies also are complying early with the FASB statements, but they are more difficult to track because they often are privately held corporations.

Companies opting for early implementation generally have well-funded pension plans, which improves net income following adoption of the FASB rules, accountants and actuaries agreed.

They also said companies likely to be adversely affected by the accounting rules — those required to recognize an unfunded pension liability — generally will use the entire grace period to minimize the effect on their income statements.

Statement 87 outlines the process for calculating pension expense, separating it from the process used for funding the pension fund. Previously, these functions were calculated together.

Statement 88, related to the first guideline, deals with the accounting of curtailments and settlements of pension benefits.

Although the FASB statements were issued near the end of 1985, executives of E.I. du Pont de Nemours & Co., Wilmington, Del., were able to alleviate some of the deadline pressure through constant monitoring of the FASB's actions.

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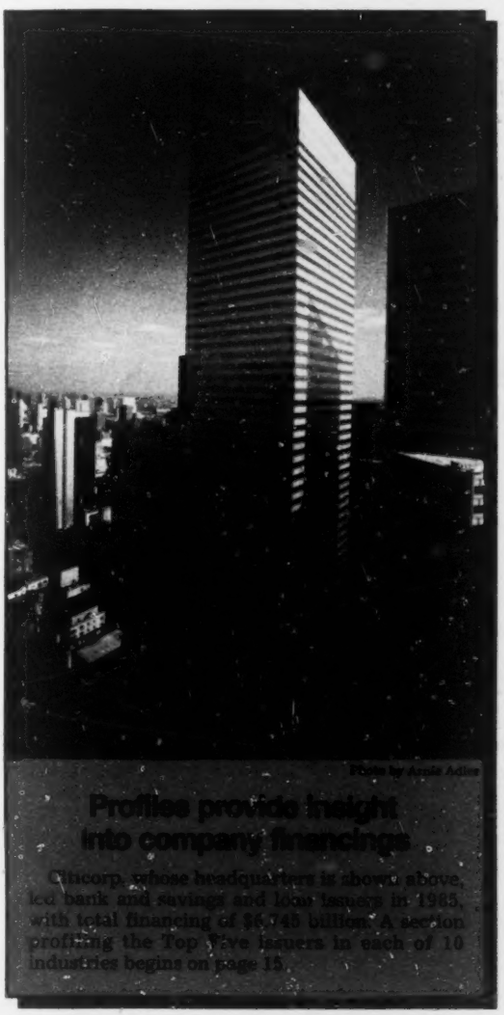

Photo by Annie Adler

Profiles provide insight into company financings

Citicorp, whose headquarters is shown above, led bank and savings and loan issuers in 1985, with total financing of $6.948 billion. A section profiling the Top Five issuers in each of 10 industries begins on page 15.

U.S. bond issuers returning to basics

By Marci Baker

The recent surge in the domestic new issues debt market is being accompanied by what some Wall Street officials believe could be a fundamental shift in corporate debt financing among higher quality issuers.

These companies are eschewing issues with special features and more esoteric instruments to raise capital through traditional fixed-rate debt securities.

The trend, which is expected to continue into the foreseeable future, has been fueled by the sharp drop in U.S. corporate bond yields — a drop that has brought financing costs to their lowest levels since interest rates began to climb in late 1979, investment bankers said.

The low yields sent U.S. corporate issuers flocking to the market to raise $13 billion in the two weeks ended March 1, bringing total domestic debt volume since the first of February up to just more than $20 billion.

A large portion of that came from companies with higher quality credit ratings such as Citicorp., General Motors Acceptance Corp., the World Bank and McDonald's Corp., which raised capital through straightforward fixed-rate debt issues.

"There's no question there's been a fundamental shift in the type of bond being issued," said Nancy Kimelman, an economist at Salomon Brothers Inc., New York. "Yields are very low right now and, as a result, the more conservative type of bond is coming to market. We're seeing very few issues that include special features."

Only $70 million of the $5.1 billion in new debt issues to come to market in the week ended March 1 and only $700 million of the about $15 billion issued in February represented floating-rate securities, she noted.

Corporate finance

Floaters accounted for 10% of total 1985 domestic debt volume and 22% of total 1984 volume.

The proportion of new issues rated AA or better climbed to 50% in February from 27% in all of 1985, according to Salomon research.

Issuers also are leaning toward longer-term maturities. Traditional long-term bonds maturing in 20 years or more accounted for 30% of February's volume, compared with 19% in 1985, Salomon reported.

"If you can get 10-year fixed-rate financing at 8¼% or 30-year financings priced through 9%, most corporate borrowers don't want to (bother) with bells and whistles that limit their financing flexibility," asserted James Stern, managing director at Shearson Lehman Brothers Inc., New York.

A few high-quality issuers, moreover, have offered 30- and 40-year issues that are non-callable for life. Two weeks ago, Atlantic Richfield Co., Los Angeles, raised $450 million with 30-year non-callable bonds yielding almost 9.9%, followed by a $200 million deal by the World Bank, New York, for 40-year non-callable debentures priced to yield just less than 9%.

In addition, Corning Glass Works, Corning, N.Y., raised $75 million in 30-year non-callable bonds priced to yield 8.95%.

"This was the first time we'd been in the public debt markets since 1982," said James Flynn, senior vice president and treasurer at Corning. He noted long-term yields presented an irresistible opportunity to pay off the company's outstanding commercial paper and raise working capital at low-cost, long-term rates.

According to Salomon, corpo-

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